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# CPA's spokesman on taxes; Constructive services

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## THE CPA's SPOKESMAN ON TAXES

"Mortimer Caplin deserves a lot of credit," said Thomas J. Graves, partner in the Executive Office, not long ago. "He has helped to stiffen the moral fiber of taxpayers and tax collectors alike."

As general chairman of the committee on federal taxation of the American Institute of CPAs, Mr. Graves is in a better position than most people to observe the work of the Commissioner of Internal Revenue. The committee maintains virtually continuous liaison with the Internal Revenue Service.

Commissioner Caplin, who has just resigned his post after nearly four years in office, has in a sense returned the compliment by the keen interest he has shown in the committee's program as a means of achieving his own objectives. Criticism of tax morals has been mounting for years, and the tax committee has placed high on its crowded agenda the job of defining just what a CPA's responsibilities are in tax practice. Since this is the first time that any profession or group has ventured to define a tax practitioner's responsibilities, the Commissioner's interest is not surprising.

For nearly ten years the Institute has been considering this question in an exploratory sort of way. The subcommittee on responsibilities in tax practice, formed in 1962, is the third committee to wrestle with it and the first to come forth with tangible results. Based on its recommendations, the federal tax committee is issuing the first of a series of Statements on Responsibilities in Tax Practice, intended to guide a CPA within the general limits of the Institute's Code of Professional Ethics. In essence, it explains the circumstances in which a CPA who prepares a client's federal income tax return must "verify" the return by signing it.

This is only the first of several such "responsibility" statements which the committee expects to issue. Other topics under consideration are: whether or not you must sign as a preparer when you review a return; what effect examinations of prior years have on preparing a return for the current year; and how omissions and errors of

prior years affect preparation of the current year's return.

The work of the subcommittee on responsibilities in tax practice is but a small part of the program of the federal taxation committee. However, like the part of the iceberg above the water, it is conspicuous, and its fate is being followed by other interested groups and professions. The Firm's professional staff will doubtless hear it mentioned by IRS agents, lawyers, and representatives of other organizations—the Tax Executives Institute, for example.

Less conspicuous projects may call for such delicate negotiations that no attention can be called to them. Recently, for example, Mr. Graves talked with the IRS about its desire to see accountants' audit working papers when it examines taxpayers' returns. Some CPAs, with their clients' permission, have been willing to furnish the Service with information from their audit papers in response to examiners' questions. For the IRS to insist on regular examinations of audit papers would be another matter. It could jeopardize the CPA's confidential relationship with his client, and it could inhibit the audit process itself. After talking with Mr. Graves several times over a period of months, IRS officials agreed tentatively not to seek routine access to audit papers. The discussions have not yet been concluded.

### How Work Gets Done

There are seven other subcommittees of the committee on federal taxation, which deal with everything from estate planning to the administrative procedures of the IRS. An executive group, composed of the general chairman and all subcommittee chairmen, reviews all committee matters and considers what issues the full committee should take up. With 66 members, it is the largest technical committee of the Institute and one of the oldest, having first been organized in 1925. It is also one of the most demanding. Mr. Graves estimates that its affairs absorb a good half of his time. Often he is on the phone for committee matters three to five times a

"There are too many instances of fruitless and unnecessary controversy that have added materially to the work of the government as well as of taxpayers."

THOMAS J. GRAVES





Mr. Graves appearing before a Congressional committee.

day, and he deals with perhaps 20 different committee problems a week. Combining his committee responsibilities with those of coordinating the Firm's tax practice and still doing justice to family and finding time for a little recreation requires careful organization of his time.

At one point last March, a project status report showed 25 different committee projects at various stages of development. Among them were: preparing to meet with representatives of the American Bar Association's Section of Taxation; surveying IRS settlement procedures so that recommendations for strengthening them could be prepared; drafting the committee's report to the Institute's governing Council; putting together a new set of recommendations to Congress for amendments to the Revenue Code; designing a program to improve liaison between CPAs and the IRS at the Regional level; sending all committee members a question-

naire to get their suggestions for new subjects for IRS revenue rulings; launching a new program for coordinating the Institute and state CPA society programs in federal taxation; reviewing regulations proposed by the IRS; drawing up suggestions to the Institute's president for candidates meeting the stiff qualifications for membership on the committee; outlining the tax program for the Institute's annual meeting.

Eight of these ten projects in one way or another depended for further progress on Gilbert Simonetti, Jr., the Institute's able staff manager of taxation, who drafts some of the committee's documents and coordinates communications between its members.

#### **Washington Representatives**

Most of the committee's work has to do with representing the profession in Washington, and most of its projects there fall into two areas: advice on tax legisla-



tion to Congress—or more particularly to the House Ways and Means Committee and the Senate Finance Committee and their joint staff—and advice to the IRS on its administration of the tax laws. A significant feature of the committee and one that sets it apart from other groups appearing in Washington is its authority to speak for its parent organization. It is empowered to respond quickly in the fast-breaking Washington scene.

The committee's value to the government, to CPAs, and to the public generally stems from its guiding policy, to serve the national interest and to serve it with the objectivity characteristic of CPAs. Remarks like the following, by Congressman Wilbur D. Mills, Chairman of the House Ways and Means Committee, testify to the high esteem in which the committee is held in Washington: "The American Institute of Certified Public Accountants has rendered a valuable public service in the attitude that the organization has taken with respect to improvement of our tax laws, pointing out those things that operate adversely against both government and taxpayer."

While the committee's recommendations to Congress are usually a bit more dramatic than its advice to the administrative agencies and sometimes attract press attention, the administrative recommendations require

a good deal more time and attention and are pursued quietly and informally. A glimpse into this area can be had by looking at the agenda for a meeting last January between the committee's Executive Group and Commissioner Caplin, flanked by ten of his top officials. In a cordial and constructive atmosphere they talked about such matters as: the number of Revenue Rulings published by the Service (the committee urged that these guides be increased); getting the committee's views on administrative settlement procedures; the attitude of CPAs toward the IRS as shown by a survey; problems regarding changes in inventory and other accounting methods (committee members were shown the draft of a Revenue Procedure intended to give relief in this area); and committee suggestions for changes of policy and procedure in the IRS Office of International Operations (Commissioner Caplin agreed to look into the matter).

Asked to pick out the committee's single most important accomplishment, Mr. Graves replied that it has been to establish the CPA in the public's mind as a responsible, capable tax specialist. He warned, however, that "The tax practice of CPAs should never be taken for granted. It is theirs not from any inherent right but from their ability to render effective service in the public interest."

## CONSTRUCTIVE SERVICES

The accountant needs two qualities to render constructive services to his client: competence and alertness. One is acquired, the other a state of mind.

Alert accountants spot ways to render constructive services even in their first year. When your review of accounts receivable turns up a large number of sales returns, do you look into the reasons for them even though they are all in order for audit purposes? You may find a lack of quality control in production. Perhaps defective goods are being shipped which the customer must return at substantial cost to the client. Goods may be inadequately packed and broken in transit. Possibly wrong quantities of the wrong item are being shipped to the wrong customer.

When you review accounts payable, do you look to see if the client is losing discounts for prompt cash payment? If so, it may be because his cash is low. A

brief investigation may suggest that he might save in the end by borrowing to make prompt payment. Or you may find inefficiencies in processing invoices and vouchers for payment. There may be delays in matching invoices, purchase orders, and receiving reports, or in preparing checks and processing them for signature.

A good way to flag lost discounts is to record accounts payable net of discount. Then if gross must be paid, charge the excess to an account labeled "discounts lost."

The client may be aware of these problems, and you should be wary of easy solutions, but you may still be able to show him how to correct a fault. If he has not seen the problems himself, and though you have no specific answer to them, you can at least show him that they exist. In either case, you will be helping him, and he will be grateful.